THE IMPORTANCE OF THE BANKING FINANCIAL EDUCATION COMPONENT IN ECONOMIC PERSPECTIVE

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Abstract:
Economy and civil society has gone through an unprecedented financial crisis determined by an acute shortage of financial education among the large community of individuals and legal persons. Thus, the low level of economic and financial knowledge from society contributed to the amplification of economic crisis. In 2008, in the midst of financial crisis in the European Union was created ***Expert Group on Financial Education (EGFE),*** *aimed at supporting a new financial education order. Breaking the vicious circle of banks debt and sovereign one, improvement of supervision European banking system, solving the financial problems of some banks through the mechanism of bank resolution, without recourse to public resources, strengthening the trust of potential customers in the financial market, in the first process of finalizing the Union European banking, can be achieved and by a new order of financial education.*

Keywords: credit information, banking culture, financial education.
JEL: E42, E50, E52

1. Introduction

According to the documents of the Organization for Economic Cooperation and Development, financial education can be regarded as " *process by which consumers and investors improve their ability to understand financial products, concepts and their risks, through information, training and counseling upon the goal."* People creates safety abilities to consider both financial products risks and opportunities to make informed choices, to know where to turn for support and taking any other action, effectively, with the ultimate goal to achieve financial well-being.

Financial needs of individuals are becoming more diverse and is increasingly difficult for them to access alone without guidance, various financial products and services. Through a small financial preparation, assimilating necessary financial knowledge , consumers can easily understand the pension systems, insurance, personal contributions to various funds for social protection, investments in the capital market and especially will know how to ask for financial help from institutions credit. To protect and to take the most efficient financial decisions in relations with various creditors, especially banks, through a proper education, people can to develop their certain abilities. So can understand and explain what are the financial and banking products, services and other financial

The future of banking culture within the meaning of reinforcements trust between customers and banks may be determined by an effective investment in financial education. General costs of a *new order of economic and financial education* should not be incurred only by the ministry of the government as suggested at a time. Financial education requires first broad involvement of all financial and banking institutions, primarily for regaining confidence in banks and and knowledge the functioning of institutions from the financial market.

Carried out by age groups, or groups of people, *financial education* necessary to develop a *banking culture* among the population can sometimes take years until they see results.

At Community level there was a group of experts from most EU countries to monitor several projects on financial education. Romania is not part of the **"Expert Group on Financial Education"** of the European Commission, but has made few steps, developing several financial education projects through BNR and encouraging any action on financial education.

The aim of financial education is to make all people who develop economic relations to be helped to reach the ability to make wise decisions for their financial future, learn how to spend reasonable money and know what is the point of balance between revenue and expenditure.

In this regard, people with some financial education and first of all entrepreneurs thinking about how to obtain financing and by their investments made to put money to work for them.

The easiest ways to get money for development of a business are European funds are bank credit. In the last period and due to the financial crisis, between the financing options of entrepreneurs, bank credit is in a downward trend, while European funds are asked increasingly more often.

Why ? One of the causes is the loss of trust in banks based on an ignorance of potential customers on banking culture. Through this study we try to point out some benchmarks of financial education to restore confidence in credit institutions and especially for formation of an banking culture among the population.

2. Banking culture, component of financial literacy

Financial behavior of different people is, like other forms of behavior, a complex phenomenon with important social economic and cultural implications.

Because of lack of banking culture it can be said that the financial crisis has caused a big rift between banks and their customers of all types. The main factor of this "abyss created" was poor management of risks from the lending activity. In this case, *credit information* is the starting point in the process of risk management and financial stability.

National supervisory authorities is based on *credit information* to credit risk analysis. Although the central bank has highlighted these risks, however, credit institutions remained powerless to the large volume of not refunded bank commitments at maturity.

Lack of banking culture to customer borrowers, considerably increased state of conflict between banks and customers in which both sides have much to lose.

By substantiating indirect of monetary policy of the micro- and macro-prudential requirements, by implementing Basel III in the EU and by *transmitting banking information on financial education* early can prevent credit risk and systemic risk.

The absence of banking culture both among bank staff and customers, hinder their participation in the development of financial economics. Banking culture inside and especially outside a bank financial group depends on business strategy.

"When we talk about organizational culture, we can put two interrelated questions: How strong is the organizational culture in a company? What type of organizational culture exists in that bank? The order in which you have to answer these questions depend on the specific issue to be investigated. "[3] Has customers of Bank Financial Group, a banking culture?

The solution to solve this situation is financial education that has become a priority in the European Union.

Individuals close proximity to financial institutions can be achieved also through financial literacy. The triple, financial education, financial capacity and financial literacy is very important to strengthen financial system stability, especially in crisis situations.

Financial education focuses on knowing the banking field and begin by transforming people to can understand banking culture.

Financial capacity is a consequence of education that includes, besides the cognitive aspects, the accumulated information and practical skills, behavioral, which helps individuals to take a good financial decision.

Financial culture is made on the basis of knowledge about the institutions and their organizational culture on the financial market.

Therefore, in the center of financial market sphere is banking culture, thanks banks domination . According to the role that banks have in society, they have to manage the risks on customer relations.

"We don't have a extradomination but I would say that is a massive dominance of banks in the financial system in Romania. 80%, even more, of Romanian total financial assets belong to banks. This is not necessarily an advantage. There is no advantage for us, who we represent the banking system. We have a little unbalanced financial market. It's important for banks to have, not necessarily in coast, but that there is alternative for banks and bank clients and to everyone, for the real economy to have segments banking financial more developed, "said Mugur Isarescu, governor of the National Bank of Romania, during a conference at the Academy of Economic studies.[6]

Banking Culture, majoritary on Romanian financial market is developing primarily based on credit relations. So, information about the offer of banking products as loans is vital to avoid risks both from banks and from potential customers.

It is obvious that an individual can form an financial culture if he knows primarily credit relations and in general he has formed a banking culture. In this context it can be said that there are several factors that influence financial literacy.

In the financial world increasingly is mentioned that a financial culture can influence the development of the financial economy.

Social and technological changes that have greatly changed the living conditions of a society requires a certain way of financial literacy. Personal needs of the population on financial literacy can be assessed based on family budget, saving and contents related on personal finance and continuing with area of financial education.

To make a good financial decision, people should know how much they should spend permanent, depending on monthly income recorded. And in this equation, saving is a basic component for future investments.

Thus, the continuous improvement of financial literacy will include various knowledge of: banking, insurance and reinsurance, private pension sector, deposit guarantee schemes, intermediaries in securities on the capital market and other financial investments.

Through a higher level of financial literacy of the population promoted by credit institutions, it can improve the demand for financial products from potential customers who will know how to choose financial products according to risk.

Financial education helps entrepreneurs especially to beware of risks arising from inappropriate management of expenditure and revenue. The multitude of banking products and services that can be purchased by entrepreneurs generated a number of risks that, properly managed will not damage the financial interests of customers bank or nonbank.

On the one hand the numerous risks that occur in client activity affects relationships with banks and on the other hand , potential customers must know and beware of banking risks.

Interconnections between banks known as "interbank settlements" are possible due to trade relations between the bulk of bank customers who have current accounts at different banks.

All financial flows, fund transfers from one bank to another as a result of customer payment instructions are generating of risks. Among these is *credit risk*, that if is not managed properly will have ***contagion effects*** and may affect relationship between banks and customers.

Deficits of liquidity, credit relations on interbank market who are risks generators, leads to financial market contagion, interbank and payment systems.

Spread of contagion effects due to the *lack of financial education* may create occurrence of a *systemic crisis*.

Contagion of relationship between banks and the many the third persoanes without financial education leads to financial crises in various sectors: banking market, capital market, systems clearing interbank payments market, the insurance market, the market of private funds and transactions with various tools financial.

Contagion in the banking sector is much stronger than other sectors and credit institutions entering into a program of ***"bank resolution***" causing losses of depositors, investors and other creditors.

There are three main risks that potential customers need to know , especially large depositors in bank deposits. These factors may contribute to the failure of banks are: capital adequacy risk, credit risk and liquidity risk. Customers with financial education know that the interest on deposits higher than the banking market is granted by a bank with liquidity risk. Capital adequacy risk is easyer to follow based on the balance sheet information . A bank with a solid bank capital under Basel III recommendations will be less exposed to the risk bankruptcy.

"Only credit risk alone can not cause the bank to go bankrupt, as long as depositors relies on the state support for banking institution, or when the bank has exposures smaller on the retail customers."[5] If the bank does not maintain good portfolio loans and entering into a bank resolution program, depositors may relies on the deposit guarantee fund where they can recover their money.

Financial education of banking customers helps to manage information who are risks generating, depending on their position.

Customers behave differently depending on the contractual position, they have acting as: application, user of means of payment, user of banking and non-banking services, user of banking products (corporate borrowing), insured or player market capital. So banks has documented on customer behavior and typology (wealthy savers , profitable customers etc), so individuals and businesses through a proper financial education documented about the bank risks they face.

3. Information on credit risk for personal projects

Economic developments always relied on trust between partners that developed and sustained economic development based on credit relations. Information on credit is more vital than ever for individual projects and sustainable economy.

Financial resources to small and medium and entrepreneurs of all categories are available on the two channels: European funds and bank loans. But to the extent that an entrepreneur wants to access European funds and not saved for personal contribution to the project that want to achieve, then it uses a bank loan.

So in that sense, entrepreneurs current and potential customers that will access banking products needing first of all credit information.

Credit relationships are formed between clients and banks from the first contact, from the first request for opening current accounts to conduct financial flows. Entrepreneurs current and potential bank customers have access to a wide range of information and advisory services in information about credit but is not enough. In their aid came several organizations offering practical knowledge tools and programs to support entrepreneurship learning which mainly include elements of financial education.

In the relationship between the various people and banks it is very important that potential customers know, besides the offer of banking products and services, relational and transactional size of banks. There are more different types of banks but those who provide some form of financial education are specialized banks (which sadly are lacking in Romania). specializing Banks achieved a certain alchemy in customer relationship. In the contractual relationship the two partners are impeccably honest and to avoid risks requires a constant vigilance and a lot of educational effort.

,,They play as a key partner, advisors and practice a global approach to customer needs. Sale that they propose is based on the products listed in the catalog on the network. To satisfy customers, the quality of their counsel is as important as the products. "[4]

In addition to specialized banks, customers usually enter into relationships with universal banks that addressing to all .

For personal projects customers should know that banks offer products and services mainly in the form of credit based on certain criteria to cover credit risk.

That risk category falls into the category of financial risks,significant, along with market risks (interest rate risk, exchange rate risk, etc.) and liquidity risk.

"In the specialized literature and banking practice there is no uniform classification of risk faced by credit institutions in their activities most important criterion used is that of nature and their impact on stability, individually and banking system, as a whole. "[2]

Thus, customers should know that receive credits depending on the scope of activity, their creditworthiness and debt service, location and type of collateral that ensures risks until full reimbursement of banking products. Banking product price (including commissions) is recorded in national currency or in different currencies and differs from one credit institution to another. And the risks are covered by banks according the security brought by a natural or legal person applying credit.

Banks have developed credit risk models that rely on the analysis of management capacity, debt service and financial economic analysis to clients that intervene in the financial market. Made of personal projects on financial markets are linked to the globalization of financial services and financial innovation. "Closely linked with globalization of trade in goods and services, was more extensive and rapid globalization in financial field. As a result of this phenomenon multinational companies, industrial and financial, can take loans or make investments without restriction, where they want and when they want, using all existing financial instruments."[1] In this case, part of this process, information received through financial education concerns in deregulation and disintermediation defragmentation.

Because of financial crisis we went through, it was passed abolishing of the old regulations relating to foreign trade and foreign exchange operations.

through a new reglementation of financial education customers and financial institutions banking will be introduced to new regulations of financial banking activities.

4. Conclusions

Financial education requires that educated person to acquire the necessary knowledge about how the financial market is functioning and especially banks activities.

For the formation of financial literacy of the population it is necessary for financial institutions to fund financial education programs. Credit institutions in particular, to avoid credit risk shall conduct simulations with case studies on credit relations, with financial information understandable to population.

By financial education well programmed among the population, on a credit market competitive may primarily benefit consumers, in order to obtain better conditions for the loan, but also lenders to avoid the risk of credit and other financial risks and non-financial (operational risk, reputational risk, legal risk, risk of bank resolution etc.)

Sustainable development of society is based more and more on financial savings. Through financial education will be understand the concepts of globalization and financial innovation. Trends manifested in the evolution of the European financial market determines the customer be able to distinguish between market economy based on traditional banking products (bank credit) and the financial economy based on the creation of new financial products. Through financial innovation, economic activity is financed by issuance of debt securities and negotiable title deeds.

So like banks monitors customer activity by tracking daily transactions through current accounts, so customers need to form a banking culture for curing trust in banking products and services.

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